

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 ACDA-05 OMB-01 EB-07 MC-02 COME-00 TRSE-00

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DRAFTED BY NEA/IAI:EWBIZIC:WD

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FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

C O N F I D E N T I A L STATE 164032

E.O. 11652: GDS

TAGS: EAID, ECON, EFIN, IS

SUBJECT:U.S. ASSISTANCE TO ISRAEL

1. AS FOLLOW UP TO PRIME MINISTER RABIN'S REQUEST IN JUNE FOR TECHNICAL TALKS ON ISRAEL'S FY 1976 ASSISTANCE REQUEST, ISRAELI EMBASSY ECON COUNSELOR SHER CALLED ON AID/AA/NESA ASSISTANT ADMINISTRATOR NOOTER JULY 11 TO RECEIVE QUESTIONS ON GOI BLUE PAPER DEVELOPED BY INTERAGENCY WORKING GROUP. (COPY OF FINAL DRAFT OF QUESTIONS POUCHED TO EMBASSY JULY 11). NOOTER STRESSED THAT THESE QUESTIONS RELATED TO OUR REVIEW OF GOI BLUE PAPER AND ISRAEL'S ECONOMIC REQUIREMENTS, LEAVING QUESTIONS ON MILITARY ASSISTANCE TO MILITARY EXPERTS. NOOTER POINTED OUT THAT OUR QUESTIONS WERE (A) FROM BENEFIT OF HINDSIGHT WITH WHICH WE COULD SEE THAT ISRAEL'S ECONOMIC SITUATION IS SOMEWHAT BETTER THAN IT WAS WHEN BLUE PAPER PRESENTED, (B) SOME TECHNICAL QUESTIONS ON THE BLUE PAPER ITSELF, AND (C) SOME QUESTIONS THAT GO INTO WORKINGS OF CONFIDENTIAL

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ISRAELI ECONOMY.

2. FOLLOWING IS SUMMARY OF DISCUSSION ON QUESTIONS ACCORDING TO CATEGORY AND NUMBER AS PRESENTED SHER:

A. UPDATING OF BLUE PAPER PROJECTIONS. SHER SAID

THAT UPDATING WOULD PROBABLY RESULT FROM ANSWERING THE OTHER QUESTIONS. HE WOULD CONSIDER SUBMITTING ADDITIONAL TABLES BUT WOULD HAVE TO SEE WHICH WOULD BE BEST WAY TO HANDLE THIS AND ASSESSMENT OF AUSTERITY MEASURES.

-- B. LEVEL AND COMPOSITION OF GOI REQUEST. NOOTER POINTED OUT THAT WHILE BLUE PAPER REQUESTED \$2.5 BILLION IN CY 1976; SHER HAD INDICATED GOI WAS REQUESTING \$2.1 BILLION FOR FY 1976 AND PM RABIN HAD RECENTLY TOLD CONGRESSIONAL COMMITTEE THAT ISRAEL NEEDED \$1.5-\$2 BILLION. SHER REPLIED THAT ISRAEL'S ASSISTANCE REQUIREMENTS WOULD ACTUALLY DEPEND UPON DELIVERY DATES OF MILITARY EQUIPMENT WHICH MIGHT CHANGE, AND THEREFORE IT WAS NOT ENTIRELY CORRECT TO USE AVERAGING TECHNIQUE. SHER ADDED THAT RABIN HAD OMITTED FROM HIS STATEMENT BEFORE CONGRESS AMOUNTS THAT WOULD BE NEEDED TO REPLACE SINAI OIL IF SINAI RETURNED TO EGYPT AND THE COST OF CONSTRUCTING PLANNED OIL STORAGE FACILITIES. THEREFORE RABIN'S STATEMENT WAS ONLY OF RELATIVE VALUE.

C. TAX REFORMS. SHER SAID THAT HE DID NOT KNOW CURRENT STATUS OF ISRAEL'S TAX REFORM MEASURES AND THEREFORE COULD NOT COMMENT ON IMPACT THEY MIGHT HAVE. HE UNDERSTOOD THAT CERTAIN AMENDMENTS TO PLANNED MEASURES HAVE BEEN INTRODUCED. SHER SAID HE COULD ONLY GIVE GENERAL DESCRIPTION OF INTENDED REFORM WITHOUT REFERRING TO ISRAEL.

D. BALANCE OF PAYMENTS AND TRADE ACCOUNTS. (1) SHER STATED THAT HE DID NOT KNOW WHETHER BLUE PAPER BOP ACCOUNT COULD BE COMPLETED BY ADDING ACCOUNTS FOR GOVERNMENT AND PRIVATE SHORT TERM CAPITAL FLOWS AND FOR TRANSACTIONS OF CENTRAL BANK AND OTHER MONETARY INSTITUTIONS. HE SAID THAT THESE ACCOUNTS HAD BEEN OMITTED BECAUSE THEY ARE NOT MAJOR ITEMS AND HE WOULD TRY TO INCLUDE THEM. (2) SHER PREFERRED CALL IMPROVEMENT IN ISRAEL'S FOREIGN EXCHANGE RESERVES "CHANGE" BECAUSE "IMPROVEMENT" WAS TOO STRONG IN VIEW OF DEVALUATION AND MATTER WAS ULTIMATELY ONE WHICH LATEST FIGURES WOULD SHOW. ECON COUNSELOR RAFF NOTED THAT CONFIDENTIAL

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IMF REPORT FORESAW EVENTUAL DECLINE IN ISRAEL'S FOREIGN EXCHANGE RESERVES THIS YEAR. (3) NO DISCUSSION ON REQUEST FOR FURTHER DATA ON BLUE PAPER PROJECTIONS. (4) SHER SAID HE PREFERRED SUBSTITUTE TERM "EXPORT REBATES" FOR "SUBSIDIES" UNDER QUESTION WHETHER DEVALUATION WOULD LEAD TO REMOVAL OF IMPORT/EXPORT MEASURES. (5) AND (6) NOOTER SAID OUR INTEREST IN ISRAEL'S EXPORT EXPANSION PLANS AND IMPACT OF NEW EC/ISRAEL AGREEMENT WAS FOR BACKGROUND. (7) SHER SAID HE COULD ONLY PROVIDE ORAL REPLY TO QUESTION ON HOW SINAI OIL AND ROYALTY PAYMENTS ARE HANDLED DUE TO SENSITIVITY THIS MATTER AND REQUESTED SUBSTITUTION OF REFERENCE TO "ENI" BY "PARTNER". IN REPLY TO QUESTION FROM NOOTER, SHER SAID ISRAEL OBLIGED TO USE WORLD MARKET

PRICES FOR COST OF SINAI OIL. SHER EXPLAINED THAT GOI MAINTAINS BOP ACCOUNT WITH OCCUPIED TERRITORIES. ANY EXTRA AMOUNTS REMAINING IN RESOURCES (FOREIGN EXCHANGE) AT END OF YEAR APPEAR AS DEPOSIT FROM MILITARY AUTHORITIES AND ARE FOOTNOTED AS SUCH. SHER ADDED THAT THIS PROCEDURE IS DONE IN COORDINATION WITH IMF AND HAS BEEN EXPLAINED TO U.S. TREASURY DEPT. (8) NO DISCUSSION ON AMOUNT OF DOMESTIC PRODUCTION FOR DEFENSE PURPOSES.

E. SOURCES OF FOREIGN EXCHANGE. (1) SHER SAID PRESS REPORTS OF INCREASED RECEIPTS FROM UNILATERAL TRANSFERS WERE UNRELIABLE. HE NOTED THAT UJA CONTRIBUTIONS COLLECTED WERE \$155 MILLION SO FAR THIS YEARBUT ,HAT PLEDGES WERE DOWN, WHILE GROSS BOND SALES WERE \$110 MILLION. SHER REMARKED THAT DATA COMES FROM UJA SOURCES AND NOT ALWAYS AVAILABLE TO GOI ON TIMELY BASIS. HE ADDED THAT JEWISH AGENCY HAD REJECTED LATEST UJA BUDGET DUE TO LACK OF FUNDS. (2) AND (3) NO DISCUSSION ON BOND SALES AND COMMERCIAL BORROWINGS.

3. SHER SAID THAT HE WOULD TRY TO RESPOND TO QUESTIONS BY JULY 25. HE FELT ISRAELI EMBASSY COULD DEAL WITH MOST QUESTIONS BUT NOTED NEED TO REFER TO FINANCE MINISTRY (DOVRATH) ON SOME QUESTIONS TO REPLY IN FULL.

4. DEPT. APPRECIATES EMBASSY,S RECENT REPORTING ON ISRAELI ECONOMIC SITUATION WHICH WAS IMPORTANT TO PREPARATION OF QUESTIONS ON GOI ASSISTANCE REQUEST. INGERSOLL
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